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FM AMEMBASSY BRATISLAVA
TO RUEHC/SECSTATE WASHDC 0145
INFO RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHSL/AMEMBASSY BRATISLAVA 0179

UNCLAS SECTION 01 OF 02 BRATISLAVA 000388

SIPDIS

STATE FOR CA/OCS R. DOWELL
STATE FOR EEB/TRA J. BYERLY AND M. FINSTON
DEPT OF TRANSPORTATION FOR STEPHEN HATLEY
STATE FOR EUR/CE J. LAMORE
AMEMBASSY PRAGUE FOR B. ROCKWELL
USEU/BRUSSELS FOR M. CATON

E.O. 12958: N/A

TAGS: [EAIR](#) [ECON](#) [PGOV](#) [LO](#) [XG](#)

SUBJECT: SKYEUROPE: DEBT-FUELED NOSE DIVE

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¶1. (U) SUMMARY: With mounting cashflow problems forcing it to miss payments to airports and suppliers, SkyEurope ceased operations and prepared to file for bankruptcy shortly before midnight on August 31. Never once turning a profit in its eight-year existence, the budget airline's financial health worsened dramatically in the past year as the economic crisis deepened across Europe, simultaneously reducing customer demand and making it more difficult to obtain the short-term financing necessary to keep the company afloat. SkyEurope's rapid descent began last October, when several of its leased planes were seized by their owner for nonpayment. The airline continued to hemorrhage cash this year, and two weeks ago the Vienna airport abruptly ceased offering it services, forcing it to scramble to relocate affected routes to the nearby airport in Bratislava. The sudden bankruptcy has left many customers holding worthless tickets, and it seems unlikely they will receive refunds. Embassy Bratislava has not yet received any reports of Amcits stranded by the collapse of the airline. END SUMMARY.

¶2. (U) Already in precarious financial health and reliant on bridge loans to remain solvent, SkyEurope's situation worsened soon after the financial crisis began last fall. In October 2008, GE Commercial Aviation Services (GECAS) recalled four planes that it had leased to SkyEurope; this was followed quickly by a recall of six additional Boeing 737-700 jets by GECAS in January 2009. Faced with the loss of ten of its 14 planes, SkyEurope temporarily borrowed older aircraft from Air Slovakia and Seagle Air in order to continue its operations; it eventually was forced to reduce its routes. Further highlighting its cashflow problems, SkyEurope also announced in January that it had secured an agreement with Longstock SAPO LLC to delay repayment of its EUR 10 million bridge loan.

¶3. (U) As business conditions continued to deteriorate--the number of SkyEurope passengers fell nearly 23 percent in the year to July as the airline posted a EUR 32 million loss for the first half of the year--the airline filed for protection from its creditors under Slovak bankruptcy law on June 22. Despite this, airports in several European cities, including Paris and Bucharest, reportedly seized SkyEurope planes in an effort to compel payment of debts. After Slovak courts approved the

airline's restructuring plan in July, SkyEurope announced that it had secured a new bridge loan to provide it liquidity while completing an EUR 16.5 million equity investment by the Austrian group FOCUS Equity B.V. The equity investment was never completed, however, and SkyEurope's cashflow problems caused it to miss payments to both the Vienna airport and a number of suppliers. The Vienna airport suddenly stopped offering services to the airline on August 14, forcing it to move the affected routes to Bratislava's airport. Further payment difficulties caused the airports in Prague and Bratislava to suspend service on August 31, leading to SkyEurope's announcement later that night.

14. (U) According to press reports, thousands of travelers have been stranded throughout Europe as a result of SkyEurope's collapse. The airline had been flying 33 routes connecting 16 European countries. Although most other budget airlines operating in Europe have announced "rescue fares" for these stranded passengers, it is uncertain whether any of the 280,000 people reportedly holding a SkyEurope ticket for travel in the next six months will be able to get a refund. SkyEurope's website offers little hope, merely suggesting that customers contact their credit card companies or travel agents--several of which, for their part, have already deflected responsibility back to the airline. Embassy Bratislava has yet to receive any reports of Amcits stranded due to SkyEurope halting its operations.

15. (U) COMMENT: While the end was rather sudden, SkyEurope's demise was long anticipated. Although CEO Nick Manoudalis has announced plans to form a new airline under the same SkyEurope name, it seems an unlikely proposition given the spectacular flame-out that left thousands of passengers stranded throughout

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the continent. SkyEurope's rivals, particularly Hungarian WizzAir and Ireland's RyanAir--both of which have recently announced plans to expand service to Bratislava--seem poised to fill much of the void left by its departure. Additionally, the Bratislava airport has long hoped to steal some of the routes currently flying into the Vienna airport, and construction has begun on a new terminal championed by Prime Minister Robert Fico that will result in a doubling of the airport's capacity. As a result, it seems likely that SkyEurope will ultimately be little missed. END COMMENT.
EDDINS